Responsible Investment Policy
(formerly ESG Policy)
Document Control

a. Version Control / Revision History

This document has been through the following revisions:

<table>
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<th>Version</th>
<th>Date of Approval</th>
<th>Remarks / Key changes / Reason for Update</th>
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<td>Initial version</td>
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<tr>
<td>3</td>
<td>May 2012</td>
<td>Annual review</td>
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<tr>
<td>3.1</td>
<td>April 2013</td>
<td>Annual review</td>
</tr>
<tr>
<td>3.2</td>
<td>July 2013</td>
<td>Update</td>
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<tr>
<td>4</td>
<td>October 2014</td>
<td>Review</td>
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<tr>
<td>5</td>
<td>February 2015</td>
<td>Review</td>
</tr>
<tr>
<td>6</td>
<td>February 2016</td>
<td>Annual review</td>
</tr>
<tr>
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<td>February 2017</td>
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</tr>
<tr>
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b. Authorisation

This document requires the following approvals:

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<td>Plato Board</td>
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<tr>
<td>Revisions</td>
<td>Plato Managing Director</td>
</tr>
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</table>
Introduction

Plato Investment Management Limited (Plato) recognises its duty to behave responsibly in its business activities and towards those whom its actions affect. Plato’s views on Responsible Investing and ESG are consistent with and support the Ten Principles of the United Nations Global Compact.

As an investment manager, we believe that a high standard of business conduct, as well as a responsible approach to environmental, social and governance (ESG) issues makes good business sense and enhances shareholder value. Conversely, poor management of these issues may pose a risk to the reputation and value of a business.

_The first part of this Responsible Investment Policy deals with our approach to ESG issues as an investment manager. The second part of this Policy focuses on Plato as a business and the principles that guide us._

We have developed these Guiding Principles to express how we view our responsibilities and how they apply in a practical way to the day to day running of our business. They will be reviewed from time to time to ensure they remain relevant.

This policy was formerly Plato’s ESG Policy, and has been adapted to meet United Nations-supported Principles for Responsible Investment (UNPRI) requirements for a Responsible Investment Policy.

Part 1

1. **Plato Investment Management’s Overall Approach to Responsible Investing (including ESG)**

Plato follows a disciplined systematic investment process based on statistical analysis of investment fundamentals, using several metrics to compare companies broadly categorised as value, business momentum, and quality factors, but also believes that ESG issues can influence share prices over time. Plato is committed to responsible investing – the integration of environmental, social, and corporate governance (ESG) considerations into investment management processes and ownership practices, in the belief that these factors can have an impact on financial performance.

A multi-faceted approach to ESG inclusion is an integral component of Plato’s investment philosophy, with the aim of incorporating all value drivers into our investment decision-making to deliver superior investment outcomes for clients. Responsible investing and corporate social responsibility are increasingly important to our client base, and our integrated approach allows alignment of their values with investment objectives. Plato believes responsible investment is consistent with long-term return objectives and our fiduciary duty to act in the best interests of clients. A long-term perspective on risk that accounts for sustainability is likely to lead to enhanced risk management and investment opportunities. Plato signed the United Nations-supported Principles for Responsible Investment (UNPRI) in 2011. The principles provide a framework for investors to incorporate ESG issues into investment analysis and ownership practices. We continue to source new and updated ESG data to develop better understanding of the impact of ESG and sustainability issues upon risks and returns in our investment strategies. We have also signed up to receive governance issue notifications via the UNPRI clearing house.

As a founding member of ESG Research Australia, Plato’s approach to ESG has been established through extensive internal research on the area, further detailed below. This Responsible Investment Policy outlines Plato’s incorporation of ESG. This is underpinned by the use the proprietary red flag indicator to guide investment decisions, which differentiates companies based on their ESG practices. This is supplemented with Plato’s stewardship through proxy voting and engagement, to encourage companies to adopt improved ESG practices that benefit both financial performance and the wider community. Plato is a member of the Climate Action 100+ investor group, designed to engage with leading Australian emitters. Plato’s robust portfolio construction facilitates low-carbon funds, stock or sector screening, and portfolio tilts towards positive ESG factors, tailored to
client preferences and values. Across all portfolios, Plato is a signatory of the Tobacco-Free Finance Pledge, that excludes tobacco companies by GICS. Furthermore, as a signatory to the Montreal Carbon Pledge, Plato measures and publishes the carbon intensity of our portfolios.

*Evaluating ESG Evidence*

Plato’s investment approach is to theoretically hypothesise factors which are likely to differentiate future share price behaviour, and then to test whether these relationships exist using historical factors and share price performance. Whilst Plato would like to believe that companies adopting sustainable practices should outperform companies that don’t adhere to sustainable practices, as a facts-based systematic manager we seek statistical evidence that this is the case.

Plato does not employ dedicated ESG analysts, rather it utilises the resources of several dedicated ESG service providers who specialise in analysing companies within Australia and globally, subscribing to several data bases and service providers. Plato has evaluated numerous sources of ESG data and scientifically investigated the integration of ESG scores into our investment process. The results of our initial study are contained in a white paper (“Implementing ESG tilts in an Equity Portfolio”) which was recognised as one of the leading studies of its kind in the Australian equity market.

We believe we can successfully integrate ESG scores into our investment process as a risk control. The statistical evidence is reasonably strong, and we have incorporated ESG factors into one of the risk models that we use to evaluate the risk of our portfolios. We believe that ESG data is evolving through time, and issues such as data depth and breadth continue to improve, providing fruitful areas for research over time. Incorporating (poor) ESG factors as risk factors means that we will likely avoid or downweight stocks with high ESG risk scores.

*Encouraging ESG Research via ESG Research Australia*

Plato is a founding member of ESG Research Australia (ESG RA), which aims to encourage the development and provision of ESG research on listed companies by brokers within Australia.

Plato uses broker earnings forecasts in its process, and as an active member of ESG RA, encourages brokers to consider ESG factors when valuing companies and forecasting future earnings. Plato includes an explicit ESG category within its broker panel assessment criteria, and scores brokers on how well they have engaged on ESG issues, including the provision of ESG related research. This provides an incentive for the analysts to imbed ESG assessment into their earnings forecasts and risk assessment of each company under coverage.

Due in part to the success of the ESG RA aims, and increased interest in the topic, we find that the underlying earnings forecasts largely already include some consideration of ESG risks and exposures, either explicitly or implicitly in the forward estimates of earnings or valuation.

2. **Asset-Class Specific Guidelines for ESG Incorporation**

Plato invests solely in listed equities. Plato implements the assessment, review, and consideration of ESG factors, alongside stewardship. ESG factors are directly incorporated into live domestic and global strategies through the proprietary red flag indicator. These red flag indicators outline Plato’s environmental, social, and governance guidelines, by specifying which ESG factors are considered in the investment process. Following significant research in 2018, we have found a proprietary red flag indicator, incorporating over 40 ESG red flag warning signs (almost 70 including forensic accounting red flags) out of a total of 100 red flags, significantly improves performance by both avoiding or underweighting stocks with several red flags, but also by boosting expected returns of stocks with no red flags. Our research shows that firms with 6 or more ‘red flags’ significantly underperform other firms, whilst stocks with no red flags outperform the average stock. Our red flags research suggests that ESG factors are not only risk factors, but are alpha factors. Red flags were implemented formally in Q1 2019.
Plato also incorporates ESG factors through screening and thematic investing on an individual client basis, depending on the specific preferences, ethical values, and risk profile of the client. Refer to ‘Approach to Exclusions’ for further detail on screening.

Plato has the demonstrated ability to build ESG solutions for clients, supplemented through research into building ESG tilted and CO2 light portfolios. We understand that some clients have strong positive or negative views around the investment merits of certain types of stocks (such as gambling, tobacco, and fossil fuel producers) and we believe we have the appropriate tools and experience to build well-diversified portfolios which can satisfy these client requirements. We have worked with many clients and potential clients to build portfolio solutions that satisfy clients moral and ethical views on particular stocks and industries. Our portfolio construction framework is robust enough to satisfy multiple objectives and constraints, including specific stock and sector lists from clients. For instance, we can build portfolios that negatively screen out or exclude certain stocks or industries, positively tilt toward positive ESG characteristics (relative to industry peers or ESG criteria), or negatively tilt away from (but not necessarily exclude) negative ESG characteristics or carbon exposures. We can allocate capital to assets related to certain environmental or social outcomes, depending on the client’s requests for thematic investing.

Plato identifies and assesses sustainability outcomes in terms of the sustainability performance of its funds. Plato’s approach to sustainability outcomes includes analysing measures of each fund’s carbon intensity or carbon footprint, comparing number of red flag indicators between companies, and tracking progress of environmental practices of investee companies achieved through proxy voting and engagement.

3. Approach to Exclusions

Plato is a signatory of the Tobacco-Free Finance Pledge, based on both environmental and social concerns. Plato applies a negative screen which excludes stocks within the tobacco industry, by GICS, that produce and/or manufacture tobacco. As further detailed in ‘Asset-Class Specific Guidelines for ESG Incorporation’, Plato can exclude stocks or sectors based on the preferences and ESG criteria of clients. Plato has the discretion to exclude stocks or sectors from the portfolios that are deemed to not uphold environmental, social, and governance considerations, such that they may be unviable as an ongoing investment. This could include stocks and sectors that may have a material negative impact on the portfolio’s return objective or Plato’s reputation, due to the ethics and associated risks of their activities.

4. Approach to Stewardship

Plato adopts many tools to promote responsible stewardship and communicate client interests, including proxy voting and engagement. The aim of these practices is to maximise long-term value creation and minimise risk for clients, by improving company ESG practices and sustainability outcomes.

Plato actively votes proxies based on its fiduciary responsibilities to act in the interests of clients. Through proxy voting, Plato can influence the business practices of investee companies to align with ESG considerations. Plato generally votes all proxies for its funds and for client mandates, although some clients may choose to exercise their own proxies. Plato aims to vote on all resolutions. Plato utilises the services of two proxy voting firms (Ownership Matters and ISS) to assist with making voting decisions, but ultimately the proxy decisions are determined by Plato. For more details on Plato’s proxy voting please refer to Plato’s Voting Policy.

In addition to proxy voting Plato actively engages with companies in several ways, either directly or through external service providers. Plato engages with companies:

1) Directly with company senior management and/or Board Members on significant issues of interest;
2) Indirectly with companies through our governance advisors (Ownership Matters and ISS) who each actively engage with more than 200 Australian companies per year at the Board or senior management level; and

3) Via membership of collaborative groups of investors such as Climate Action 100+ (refer below) to discuss specific areas of interest.

Engagement with companies is largely, but not exclusively focussed on ESG issues, such as governance (e.g. remuneration, board structure and independence, and shareholder rights), environmental issues (e.g. climate change, water supply, and energy efficiency) and social issues (e.g. human rights, modern slavery, health and safety, and indigenous rights). As many engagements are involved with confidential issues, Plato does not believe it is in the best interests of all involved to publicly report on detailed engagement activity.

Plato became a member of the Climate Action 100+ investor group in December 2017. Climate Action 100+ is an investor initiative to ensure the world’s largest corporate greenhouse gas emitters take necessary action on climate change. The companies include 100 ‘systematically important emitters’, accounting for two-thirds of annual global industrial emissions, alongside more than 60 others with significant opportunity to drive the clean energy transition. As a signatory, Plato commits to work with other members to engage with leading Australian emitters.

5. **External Reporting Related to Responsible Investment**

Plato is committed to transparency and disclosure of the implementation of this Responsible Investment Policy, through regularly reporting of carbon intensity and other ESG factors to key stakeholders, such as mandated clients. Plato participates in the reporting requirements for UNPRI, including publicly available information on our website outlining our responsible investment guidelines and UNPRI rating.

The Carbon Disclosure Project (CDP) and the Montreal Carbon Pledge (launched on September 25th, 2014 at the UNPRI Summit in Montreal, supported by the PRI and the United Nations Environment Programme Finance Initiative (UNEP-FI)) provide evidence of the growing global movement to measure and ultimately reduce the carbon intensity of investment portfolios. Plato is a signatory to the Montreal Carbon Pledge, and to this effect has contracted with service providers to provide data to enable Plato to measure and monitor the carbon intensity of its portfolios. Plato currently subscribes to two carbon databases for Australian stocks. For clients who want to lower the carbon intensity of their investment portfolios, Plato can provide lower carbon intensity portfolios than standard market benchmark portfolios. Our research shows that one can considerably (up to 20%) reduce the carbon intensity of active Australian equity portfolios without significantly impacting other broad portfolio characteristics.

6. **Responsible Investment Governance Structure**

The CEO and Senior Portfolio Managers have the responsibility to ensure that investments meet a particular responsible investing-related objective through a quantitative process. The CEO has oversight and overall responsibility of ensuring such objectives are adhered to, such as meeting a CO2 reduction target.

The Plato ESG Committee meets regularly to provide oversight on all ESG related matters within the business. This committee reports directly to the board, which includes monitoring all Plato portfolios with a responsible investing-related objective and recent voting or engagement.

The Plato Board reviews all Responsible Investing and ESG policies.

**Part 2**

**Plato Guiding Principles**
1. **Environment**

- Minimising any negative impact on the environment arising from our business activities; and
- Supporting initiatives such as reducing waste and energy consumption within the office.

2. **Social**

**Employee Relations**

- Providing a flexible, supportive, healthy and safe working environment;
- Adopting policies and practices which encourage an appropriate work/life balance;
- Providing a stimulating work environment where our employees can grow and expand their skill set.

**Community Involvement**

- Investing in charitable causes through Workplace Giving and in conjunction with the Pinnacle Foundation
- Supporting and encouraging our employees in their charitable and community involvement;
- Supporting the Principles of Fair Trade and not contribute to any practice where there may be potential abuses of human rights or exploitation of any kind; and
- Promoting gender diversity in the finance industry through the Plato Women in Finance Scholarship Program.

3. **Governance**

- Conducting our business ethically, maintaining good corporate governance, compliance & risk management;
- Promoting responsible business practices; and
- Understanding that good corporate governance and effective management are vital to the successful implementation of our corporate objectives.